The Consumer Voice in Europe

PUBLIC HEARING ON PAN-EUROPEAN PERSONAL PENSION PRODUCT (PEPP)

European Parliament - ECON Committee - 21 November 2017

Intervention

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First of all, I would like to thank the chair of the ECON committee for inviting BEUC, the European consumer organization, to this hearing on PEPP.

European consumers are increasingly struggling to meet their retirement needs. Consumers are being pushed to look more to personal pension products. However, personal pension products across the EU, in all their diversity, tend to be overly complex making it difficult for consumers to understand the different risks and returns, as well as the costs of these products. Our members have identified the personal pensions market as a key concern in retail finance.

For that reason, BEUC welcomes the European Commission's initiative on PEPP.

If successful, PEPP could foster competition and give access to personal pension products to consumers who are deprived of them in their own countries.

If successful, PEPP could also help reduce some market inefficiencies in the retail investment area, and pave the way for creation of standardised financial products.

However, we must bear in mind that personal pensions act as additional saving vehicles, targeted primarily at higher income households. So, the PEPP initiative is not the magic bullet to close gaps in statutory pension systems.

There are a couple of points to this proposal that I would like to address:

1. Default investment option: we fully support the defining feature of the PEPP, namely the mandatory provision of a default investment option.

This has great potential to improve the outcome for many consumers who are not able to make an informed choice when saving for retirement.

It has been demonstrated that cognitive biases distort most consumers' ability to make active choices when they are being exposed to overly complex information and extensive choice.

As we have stated several times, using only traditional tools of investor protection, such as disclosure and conduct rules, is not sufficient for addressing failure in inefficient markets. Therefore, a more interventionist approach including a default option is an important building block in restoring investor trust.

Having said that, we have some concerns with the default option as proposed by the Commission.

Article 37 refers to "capital protection". It is not clear whether this means the capital invested by the PEPP saver into the PEPP, or the capital invested after the deduction of charges related to the operation of the PEPP.

If this is capital after deduction of all fees borne by savers throughout the accumulation phase, it is quite misleading as - even with an annual charge as low as 1% - only 70% of the accumulated savings would be "protected", and only in nominal terms.

We also question the need to integrate guarantees in the default option. Integrating guarantees to recoup the invested capital tends to raise product complexity and the associated costs with it for consumers, and require low yielding investments. A 0% minimum return guarantee mostly does not benefit consumers, taking into account the long duration of personal pension products and the related inflationary pressure.

In some cases, a capital guarantee might be beneficial, for instance for consumers close to the retirement age, or because of risk aversion, but not in all cases.

What is important is that there is drastic reduction of choice proposed to consumers for the default option, very strict product rules, and that the consequences of each option are clearly explained to the consumer.

2. Costs: As already mentioned personal pension products across the EU tend to be overly complex and costly. Consumers are currently faced with a multitude of fees and charges which have a huge impact on capital accumulation over the life of a pension product and on its profitability.

For instance, one of our members has reported that for a monthly premium of € 100 invested in an insurance pension product in Austria, only € 70 goes really towards savings in the first five years. After the 5th year of the term, the portion of the premium that goes towards savings is € 84.

As regularly demonstrated, the net return of most personal pension products is currently close to zero, even negative, because of high level of charges.

This issue of overly costs is not addressed in the proposal. But as long as consumers will pay high charges on personal pension products, there is no reason for consumers to take-up PEPPs.

This is the reason why BEUC argues for a provision capping the level of fees, commissions and other costs borne by the consumer, at least for the default option.

In addition, all PEPP options should be cost-efficient and not only one option as provided in the proposal.

3. Authorisation procedure: BEUC welcomes the authorisation mechanism proposed in the regulation, especially the fact that the authorisation to act as a PEPP provider is granted by a single EU authority, EIOPA.

BEUC considers that this procedure can help in improving the quality of personal pension products and making the PEPP a trustworthy quality label throughout Europe.

4. PEPP Key Information Document: We agree with the provision requiring PEPP providers to draw up a PEPP KID, complemented with information taking into account its specific function as a pension product.

By applying to the PEPP KID the same principles and format- namely short, standardised and in plain language- which are established for all investment products, this regulation would achieve better readability and understanding of the PEPP.

In addition, it would enable comparability with other «substitutable» pension savings products that are already subject to the PRIIPS KIID disclosures.

5. Switching: Consumers need to have the possibility to switch providers and/or products. Especially in light of the long-term duration of a PEPP. Consumers need to be able to adapt to changing life circumstances or to have access to better offerings on the market.

We consider that the limitation of the total fees and charges applied by the transferring PEPP provider (max 1.5%) is too high. Having the possibility to switch every 5 years should not be subject to fees or penalties.

I would conclude by saying that the PEPP proposal is a good proposal, but some improvements are needed to meet consumer needs.

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